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FIRST COUNTRY COOPERATION FRAMEWORK FOR ALBANIA (1998-2001)

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INTRODUCTION

1. The first country cooperation framework (CCF) for Albania, which covers the period 1998-2001, serves as the Government's proposal for the use of UNDP and cost-sharing resources for Albania. The Government of Albania, especially its Council of Ministers, worked closely with the UNDP office in Albania in the preparation of the present document, which was based on extensive consultations with key development partners.

I. DEVELOPMENT SITUATION FROM A SUSTAINABLE HUMAN DEVELOPMENT PERSPECTIVE

2. Albania aims to promote and maintain sustainable economic development through the promotion of democratic, institutional and legal reforms and a free market system based on private ownership of property and means of production. The Government aims at achieving poverty alleviation through rapid economic development that includes measures to promote equity. The driving force for development is privatization, while at the same time encouraging foreign direct investments and trade, which are viewed as strategic assets in the promotion of overall development goals. Within this context, the Government considers support from UNDP to be a catalytic factor in its efforts to promote its key policy objectives and to reduce both absolute and relative poverty in the country.

3. Albania had made some progress in its evolution towards a market economy and building democratic institutions. However, transformations in the economic, political and social areas initially resulted in the reduction of industry, the main sector of the economy in 1990, to 11 per cent of gross domestic product (GDP). The collapse in industrial production has since stabilized and a moderate increase can be detected, based primarily on activities in the small- and medium-scale enterprise sector. The last five years saw a rapid increase in the service sector, which has been growing at nearly 20 per cent annually. Construction and transport activities have also showed increases. The agricultural sector is at present the largest contributor to GDP, but productivity per hectare is low.

4. Towards the end of 1996 both the Government and the economy began a rapid decline closely related to the collapse of a number of fraudulent pyramid investment schemes. In March 1997 the country descended into near total chaos and anarchy and public institutions ceased to function. After the establishment of a transitional Government of National Reconciliation, general elections were held in June 1997. The elections resulted in a new Government and the appointment of a new President. The new Government has established a policy of economic recovery and growth. The main elements of the Government's strategy for political, social and economic reform and recovery are: (a) political normalization and democratization; (b) the restoration of law and order; (c) institutional reform; (d) addressing poverty caused by the crisis; (e) financial sector reform and the resolution of the pyramid schemes; and (f) the privatization of strategic sectors.

5. In 1990, 2 million people, or 65 per cent of the population, lived in rural areas, without any form of private property. By the end of 1994, roughly 97 per cent of agricultural land had been distributed, creating some 455,000 new private farms, averaging 1.5 hectares in size. The lack of employment possibilities has forced people to migrate to urban areas and abroad. This has weakened village social structures, and has placed pressure on social and physical urban infrastructures.

6. On the other hand, the privatization programme has resulted in a slow but increasing level of economic productivity and accumulation of wealth for a small portion of the population, and a relative increase in the standard of living for others. On the other hand, it has also contributed to rising under- and unemployment (13 per cent registered unemployed in 1995) and hardship for the long-term unemployed and pensioners. In the health and education sectors the situation has deteriorated and today's education system is not responsive to the demands of the new Albanian society. The deteriorating quality and delivery of social services (e.g., health and education) are more pronounced in rural areas than in urban centres.

7. The growth of a large number of non-governmental organizations (NGOs) and civil society institutions is indicative of an active civil society and of its involvement in socio-political and economic issues.

8. The key elements of sustainable human development - poverty eradication, employment creation, sustainable livelihoods, and regeneration of the environment - will remain a priority in the coming years. Support will be provided for democratic participation as well as integration into Europe through sound governance, with a special focus on the participation of women in the country's political and socio-economic development.

9. Poverty eradication. Since no nationwide household survey of incomes and expenditures have been undertaken it is difficult to make an accurate assessment of the poverty situation in Albania. However, available information, as presented in a recent World Bank study, suggests that approximately 30 per cent of the rural population and 15 per cent of the urban population can be considered poor relative to the rest of the country's rural and urban populations. Existing information suggests that while poverty is more pervasive among the rural population than the urban population, it is less severe in rural areas. In addition, the World Bank study found that many people are vulnerable to poverty since incomes are only marginally above the poverty line.

10. Environment. In general, the mismanagement of natural resources continues to be significant and serious environmental degradation has been the result of past economic policies. The most serious environmental problems are soil erosion, deforestation, and groundwater contamination from agricultural chemicals as well as industrial and domestic wastes. This is economically significant since 75 per cent of the country's land resources are devoted to agriculture and forestry and these sectors account for some 50 per cent of GDP. Urban environmental hazards include a severe shortage of water, totally inadequate sewerage facilities, serious air pollution from exhaust emissions and inefficient solid waste collection and disposal.

11. Governance. The weakness of state institutions was a major factor leading to the crisis in early 1997. Wide-ranging institutional reforms will be necessary for the rebuilding of a democratic state adhering to the principles of the rule of law. Consequently, Albania will adapt its legislative framework to the principles and rules of a new legal system and to modern economic legislation, in order to address the needs of a market-oriented economy and for eventual future accession to the European Union. The Government is conscious that improvements in central and local public administration and the eradication of corruption require radical changes in public sector management practices. A State Institutions and Public Administration Reform (SIPAR) programme has therefore been designed. In June 1995 Albania was admitted to the European Council, an important step towards the integration of Albania into Europe. Albania is, therefore, committed to endorse the European Convention on Human Rights as well as other standards and laws.

12. Gender. The involvement of Albanian women in the areas of both public policy and management is generally modest, as evidenced by the fact that no women serve as mayors or heads of local government, nor are there any women in senior management positions in the private sector. While there is no culturally based adverse attitude towards women serving in senior government or political positions, little has been done at national level to promote women into decision-making positions. However, more than 20 women's NGOs are actively involved in improving the status of women in society in general. Public awareness campaigns/seminars on women-in-development issues will continue to be promoted.

II. RESULTS AND LESSONS OF PAST COOPERATION

13. UNDP has been assisting the Government of Albania since 1981. The fourth country programme for Albania and its one-year extension, which covered the years 1994-1997, focused its resources on three areas: (a) alleviation of the social impact of structural reforms; (b) human resources development, including human rights and democracy; and (c) national capacity-building.

14. The publication of national human development reports in 1995 and 1996 was a major step in promoting the concept of people-centred development and also providing a forum for public debate on how such an objective should be met. The aggressive resource mobilization campaign undertaken by UNDP, in close collaboration with the Government, has resulted in approximately $8 million of non-core funds being allocated to UNDP-supported initiatives. It is evident that continued resource mobilization will be one of the vital prerequisites for producing high-impact results during the period of the present CCF.

15. The following conclusions were drawn from the experience gained in the implementation of the fourth country programme:

(a) UNDP support should be focused in a few key areas where it can have a catalytic impact;

(b) Impact should be increased through a more systematic use of the programme approach and by creating a better understanding of the concept among

representatives of the Government, national NGOs, United Nations specialized agencies and other donors;

(c) In increasing its support to NGOs and civil society organizations (CSOs), the Government and UNDP should work more with organizations that are active in rural and remote areas of the country. UNDP should lead the effort among donors to build the capacity of NGOs and CSOs at the local level in the areas of advocacy and programme delivery;

(d) National execution has been a cost-effective modality and has contributed to capacity-building and overall national ownership. Future UNDP cooperation should continue to promote the national execution modality.

III. PROPOSED STRATEGY AND THEMATIC AREAS

16. The unprecedented human suffering and civil unrest caused by the collapse of the pyramid schemes in early 1997 and the election of a new Government and the need to strengthen its capacity to govern resulted in the adoption of a Reform and Recovery Programme as the main short- and medium-term planning framework for putting the country back on the path of sustainable development. The Programme, which was based on a document entitled "Albania: Directions for Recovery and Growth" prepared jointly by the World Bank, the European Commission, the European Bank for Reconstruction and Development (EBRD) and the International Monetary Fund and endorsed at international donors meetings in Rome, Italy, and Brussels, Belgium, in October 1997, will provide the framework for future UNDP support to Albania.

17. The Reform and Recovery Programme identifies seven main strategic elements for political, social and economic reform, namely: (a) political normalization and democratization; (b) the restoration of law and order; (c) institutional reform; (d) addressing poverty caused by the crisis; (e) macroeconomic stabilization; (f) financial sector reform and the resolution of the pyramid schemes; and (g) the privatization of strategic sectors. In addition to these strategies, the Programme includes sectoral measures focused on four main thematic areas: (a) public administration and governance; (b) private sector and agricultural development; (c) social sector programmes; and (d) public infrastructure.

18. Work has been initiated on the preparation of a United Nations Joint Programme Presentation, which will attempt to cluster United Nations system cooperation in such a way that United Nations programmes, funds and specialized agencies, including the Bretton Woods institutions, can support the various goals and strategies of the Reform and Recovery Programme in a coherent and complementary way. Within these clusters, UNDP will provide support at both the strategy and sectoral levels, concentrating on the following three thematic areas: (a) good governance and public administration; (b) economic recovery and employment; and (c) social sector development. The fourth thematic area of the Programme, public infrastructure, relates more to the work of other agencies than UNDP.

19. Gender and environmental management and conservation issues are considered to be cross-cutting concerns and will be taken into consideration in all three areas. Towards this end, a wide-ranging programme on gender equality issues has been developed, jointly funded by UNDP and the Government of Italy, to provide support for the promotion of the social and economic status of women in Albania.

20. The strategy for UNDP development cooperation is based on a number of principles: (a) the need to ensure linkages, as far as possible, to a series of specific national programmes that would provide the necessary framework for project design, resource mobilization, donor coordination and information sharing; (b) the strategic placement of UNDP inputs in the context of the formulation or implementation of national programme frameworks so as to have the greatest multiplier effect; and (c) the promotion of complementarity with the support of other donors.

21. In substantive terms, UNDP assistance is designed to support three main thematic areas that, together, can contribute to the reduction of poverty and the promotion of a process of sustainable human development. The goals of these thematic areas can be summarized as: (a) good governance - the establishment of a suitable enabling environment for economic and social development through the reform and strengthening of the process of governance, and, in particular, of the judicial system, macroeconomic policy, etc.; (b) economic recovery and employment generation - the provision of support to the able-bodied through the promotion of income-generating activities, small- and medium-scale enterprises and regional development; and (c) social sector support - the strengthening of mechanisms for support for and empowerment of the more vulnerable members of society through support for the development of comprehensive social welfare, training, education and health services.

A. Good governance and public administration

22. The lack of adequate governance was one of the main causes of the civil unrest in early 1997, and reforms in many institutional areas (the judiciary, public administration, the civil service) were already needed before the onset of the crisis. In the Reform and Recovery Programme, major emphasis has been placed on: (a) the restoration of public authority through enhanced security measures and reform of certain government institutions (e.g., local government); (b) the strengthening of the judiciary through the re-establishment of the rule of law and the independence of the judiciary; (c) the design and implementation of civil service reforms to provide for an efficient, honest and effective public administration and civil services; and (d) the promotion of the development of civil society through the strengthening of NGOs and other civic associations and the encouragement of a participatory approach in local governance. As mentioned in paragraph 11 above, at an estimated cost of $130 million, a comprehensive State Institutions and Public Administration Reform (SIPAR) programme has been developed to carry out a wide range of activities in the areas of civil service reform, the judiciary, police and security, revenue collection, constitutional reform, administrative oversight (including an ombudsman institution), expenditure management, reorganization of ministries and agencies, policy and law-making as well as Parliament. Linked to

all this is the need to strengthen the institutions of civil society and their participation in the governance process.

23. Several donors are supporting various components of the SIPAR programme, including the European Union, the Organization for Security and Cooperation in Europe, EBRD, the World Bank, the United States Agency for International Development, the Governments of France and Italy, the Council of Europe and UNDP, while the World Health Organization (WHO), the United Nations Children's Fund and the United Nations Population Fund have provided support for the restructuring of the Ministry of Health.

24. Under the first CCF, UNDP will provide support in the areas of (a) judicial reform, through the preparation of development strategy for the Judiciary; (b) local government reform; (c) human rights, including the establishment of a human rights documentation centre; (d) the establishment of a public service training facility; (e) external debt management and central aid coordination; and (f) the strengthening of CSOs. Special emphasis will be given to good governance at the local level, both through capacity-building of local governments in development planning and by engaging civil society in the development process. Complementary support in several of the above-mentioned areas will be sought from the Regional Bureau for Europe and the Commonwealth of Independent States (RBEC) regional programmes on democracy, governance and participation; external resource management; and gender in development.

25. With respect to aid coordination and management, the expected substantial influx of foreign aid to Albania over the next three to four years makes its coordination a critical factor in determining the medium- and long-term impact of development assistance in the country. Recognizing this, UNDP, in close consultation with the new Ministry of Development and Economic Cooperation, has embarked on a strategy to strengthen the Government's aid coordination capacity in the identification, preparation, monitoring and evaluation of projects and programmes. Agreement has also been reached among the United Nations system organizations represented in Albania and the Government that a United Nations Joint Programme Presentation will be prepared to further strengthen cooperation among United Nations agencies under the resident coordinator system and assist in enhancing the effectiveness and impact of the United Nations assistance in Albania.

26. Impact. The impact of UNDP support will be measured by improvements in: (a) the functioning of the judicial system and the formulation and execution of laws and regulations at the central and local levels; (b) work practices of the civil service; (c) the degree of decentralization throughout the country; (d) increased capacity of the local authorities (i.e., government and NGOs/CSOs) in policy formulation, programme planning and implementation; and (e) debt monitoring and management.

B. Economic recovery and employment generation

27. Sustainable economic development and the creation of new employment opportunities depends on the recovery and expansion of the private sector. The role of the Government in supporting such development is through the creation of

an enabling environment for both local and foreign entrepreneurs. This, in turn, requires the establishment of an appropriate legal and regulatory framework and a modern financial services sector.

28. A number of factors continue to constrain the development of private enterprise. These include an inadequate legal framework, arbitrary implementation of customs and taxation regulations, limited access to credit and inadequate financial services to support trade transactions. Consequently government priorities for the sector can be summarized as follows: (a) providing effective security for businesses through an appropriate and uniformly enforced legal framework; (b) restoring the confidence of foreign investors by providing guarantees through international financial institutions against certain categories of non-commercial risk; and (c) strengthening the financial services sector and providing seed financing for credit lines and/or equity participation programmes.

29. UNDP will provide support for the development of small- and medium-scale enterprises, both to increase incomes as well as to promote employment, privatization, and the restructuring of newly privatized enterprises. Direct investment promotion and trade facilitation will also be supported. Close links will be maintained with the RBEC regional small- and medium-scale enterprise project.

30. UNDP will also support the Government's strategy to promote decentralized rural development by strengthening its capacity to design comprehensive regional development programmes in selected geographical areas. UNDP resources will be directed towards policy formulation and the implementation of local development initiatives to provide for such basic needs as employment, health and housing; the provision of access to education and skills training; and the promotion of the role of women through the development of income-generating opportunities, including the setting-up of small-scale revolving funds.

31. Impact. The impact of UNDP participation in this focus area will be gauged by the increase in the number of small- and medium-size enterprises; the reduction in the number of unemployed, including women; the establishment of a transparent and effective privatization process; and the marked increase in foreign joint venture activities in the country. In addition, regional development schemes will have been prepared and activities initiated.

C. Social sector development

32. The incidence of poverty increased significantly following the collapse of the pyramid schemes and the ensuing loss of personal savings and increase in unemployment. An estimated 1 million people live in poverty, 40 per cent of whom are retired and receiving monthly pensions of between $7 and $22. At the beginning of 1997 165,000 families registered as qualifying for income support. Over 650,000 people live on an average of $12 per month from social assistance programmes. With over 15,000 public sector workers due to be made redundant over the next six months, the strain on the social assistance budget will be considerable.

33. UNDP will help the Government to address the economic needs of the most vulnerable groups through the development, in close collaboration with other donors in these fields, of a comprehensive social welfare programme to provide, among other things, skills training and job placement opportunities. This will include support for efforts to reduce the state monopoly in social welfare and promote greater participation of NGOs and CSOs and the private sector in this area. Within this overall strategy the role of women will be the subject of particular attention.

34. Impact. The expected combined impact of the interventions will be assessed in terms of their contribution to the reduction of vulnerability in the targeted regions, the degree of planning, decision-making and participation at the local level, and the degree of improvement of social benefits. Another indicator of success would be a significant reduction in government involvement in the management of social welfare and the corresponding increased participation of NGOs and the private sector.

IV. MANAGEMENT ARRANGEMENTS

35. Execution and implementation. Experience with national execution in Albania has been generally positive in terms of its cost-effectiveness and increased national ownership, although difficulties have been encountered due to the lack of capacity. During the period covered by the first CCF, the national execution modality will continue to be used in most projects, to be complemented by the United Nations agency execution. In order to improve national capacity, however, a training programme has been established for the coordinating unit as well as technical ministries.

36. The Ministry of Development and Economic Cooperation will remain the UNDP main counterpart for coordination of operational activities. In addition, appropriate line ministries and NGOs will also act as the implementing bodies for UNDP-supported interventions. To complement and assist the Government in the implementation of the programme, such relevant United Nations agencies as the United Nations Department of Social and Economic Affairs, the United Nations Office for Project Services, the International Labour Organization, the United Nations Volunteers, WHO and the United Nations Centre for Human Settlements (Habitat) may also be involved. Exchanges of regional expertise through technical cooperation among developing countries programmes will also be promoted and initiated when appropriate.

37. Monitoring, review, and reporting. Regular monitoring of the implementation of the CCF will be undertaken by the Local Programme Advisory Committee, in which key government counterparts will participate along with representatives of NGOs, United Nations agencies, and donors directly involved in UNDP programme areas. A comprehensive review of the CCF will be undertaken during the triennial review and at the end of the four-year period covered by the framework. These reviews will be based on independent assessments of performance by sub-theme, gauged by built-in project monitoring information and impact indicators, as well as performance criteria indicated in individual programme outlines. In addition, each of the projects and programmes will

define its own set of monitoring and evaluation criteria against which progress and impact can be measured.

38. Resource mobilization and aid coordination. Resources required to finance initiatives under each thematic area will be mobilized from both UNDP core and non-core funds with a 2:1 target of non-core to core resources ratio.

Annex

RESOURCE MOBILIZATION TARGET TABLE FOR ALBANIA (1998-2001)

(In thousands of United States dollars)

Source	Amount	Comments
UNDP CORE FUNDS		
Estimated carry-over	(889)	
TRAC 1.1.1	4 921	Assigned immediately to country.
TRAC 1.1.2	0 to 36.7 per cent of TRAC 1.1.1	This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
TRAC 1.1.3	2 200	
SPPD/STS	240	
Subtotal	6 472 a/	
NON-CORE FUNDS		
Government cost-sharing	2 000	
Sustainable development funds	1 750 of which: 1 000 750	
GEF Capacity 21		
Third-party cost-sharing	4 500	
Funds, trust funds and other	150	Poverty Alleviation Trust Fund
Subtotal	8 400	
GRAND TOTAL	14 872 a/	

a/ Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.

Abbreviations: GEF = Global Environment Facility; SPPD = support for policy and programme development; STS = support for technical services; and TRAC = target for resource assignment from the core.